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ABSTRACT

This report provides results of a review of the methodology used by the Office of Human Development Services (HDS) to measure Head Start performance and to control high risk Head Start agencies. The review was performed at HDS headquarters and regional locations nationwide. The review was based on a sample of 200 Head Start agencies and focused on Head Start performace standards, program profiles, the Objective Tracking System, best practice and compliance reports, and a regional office's internal procedures for the identification of grantees needing assistance. Fiscal and program ratings were obtained from HDS headquarters and regional office staff, and discussions were held with regional and headquarters staff. Methods used by HDS to identify high risk agencies were examined. Title 45 of the Code of Federal Regulations, Part 74, was reviewed, as were the Department of Health and Human Services' Grants Administration Manual, High Risk Grantees, Chapter 1-05, and Monitoring Discretionary Grants, Chapter 1-13; and HDS Grants Administrative Staff Manual, Chapter 8. Findings indicated that HDS had not established or implemented procedures necessary to evaluate the performance of Head Start agencies or assure that appropriate action to upgrade or eliminate high risk agencies would be taken. Improvements are recommended. An appendix provides HDS' response. (RH)

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OPPORTUNITIES FOR IMPROVED MANAGEMENT EFFICIENCY OF THE HEAD START PROGRAM

PERFORMANCE EVALUATION AND HIGH RISK DETERMINATION

PS 019874

Richard P. Kusserow
INSPECTOR GENERAL

1991

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Department of Health and Human Services

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OPPORTUNITIES FOR IMPROVED MANAGEMENT EFFICIENCY OF THE HEAD START PROGRAM, PERFORMANCE EVALUATION AND HIGH RISK DETERMINATION

Richard P. Kusserow
INSPECTOR GENERAL

CIN: A-04-90-00009

OPPORTUNITIES FOR IMPROVED MANAGEMENT EFFICIENCY
OF THE HEAD START PROGRAM

Performance Evaluation and High Risk Determination

Office of Human Development Services

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CIN: A-04-90-00009

Summary

The Office of Human Development Services (HDS) administers the Head Start program through the Administration for Children, Youth and Families (ACYF). The Head Start program was enacted by Congress to provide social services to economically disadvantaged preschool children and their families. During fiscal year (FY) 1990 Head Start budgeted $1.2 billion to provide comprehensive health, educational, nutritional, social and other services to Head Start participants.

This report is one of three reports that we plan to issue relating to opportunities for cost containment and improved efficiency of the Head Start program. The other two reports deal with HDS' automated management information systems (CIN: A-04-90-00012) and Head Start attendance goals and nonfederal matching requirements (CIN: A-04-90-00010). A draft report on automated management information systems was provided to your office for comment.

Performance Evaluation

Our review showed that HDS has not established or implemented procedures necessary to adequately measure the performance of Head Start agencies. Although performance standards have been established (45 CFR 1304), HDS has not developed needed criteria to determine the extent of an agency's compliance with these standards. We believe that HDS should establish and implement criteria to rate the performance of Head Start agencies.

A top HDS official indicated that a performance rating system was needed. This official also stated that Head Start is moving toward a rating system to make management decisions and help reduce the workload.

Our review was based on a statistical sample of 200 Head Start agencies. We found that HDS had not established procedures or developed criteria needed to measure the quality of an agency's performance. We obtained subjective ratings from 6 HDS regional offices for 115 of the 200 Head Start agencies selected. The HDS officials in Headquarters and 4 regional offices would not rate their respective agencies because uniform performance rating criteria did not exist. Based on these ratings, the operations of 13 agencies were considered to be poor, 54 were categorized as average, and 48 were determined to be good.

We believe that a performance rating system would assist HDS in its mission to provide quality services to preschool children. We also believe that unless a system is established, HDS will not be able to properly evaluate this complex program.

High Risk Determinations

The HDS awards Head Start grants to agencies to provide social services to economically disadvantaged children. These agencies must operate their Head Start programs in accordance with grant conditions in such areas as program performance and financial management and reporting. When Head Start agencies do not comply with these conditions, they are considered "high risk" by HDS, although very rarely does a grantee get classified as high risk as a result of program performance. Our review showed that HDS needs to formalize its instruction manual procedures for carrying out the Head Start program. We are concerned that the informal process may not provide assurances that: (1) methods used to identify high risk agencies are uniform throughout the Head Start program; (2) conditions that caused a program to be considered high risk are corrected in a timely manner; and (3) agencies unable to operate successful Head Start programs are identified and excluded from participation in the program.

We found that HDS has made efforts to supplement their instruction manual by sending guidance, in the form of a memorandum, implementing the requirements of 45 CFR part 92 relating to handling of high risk grantees. We believe they are moving in the right direction; however, we also believe the process would be greatly improved through formalization of guidelines relating to such areas as time frames for termination of high risk grantees from further participation in Federal programs.

The Department of Health and Human Services (HHS) Grants Administration Manual and the HDS Grants Administrative Staff Manual provide overall guidance on how granting agencies can identify high risk agencies and the actions that should be taken once the determination has been made. We based our review on requirements prescribed by these manuals and HDS high risk lists for the period September 1987 through November 1989. We also held discussions with HDS regional and Headquarters staff. We found that 19 Head Start agencies remained in high risk status for 2 or more years, receiving approximately $56 million in funding during that period. Head Start funds were awarded to some agencies whose management practices raise serious questions about their ability to assure proper programmatic use and financial stewardship of Federal funds. We estimate that approximately $14

million of the $56 million was underutilized by high risk agencies that were later excluded from participation in the Head Start program.

We recommend that HDS establish and implement improved procedures to assure that:

(1) the extent of an agency's compliance with the performance standards is determined and used as a basis for establishing uniform ratings for agencies;

(2) agencies whose management practices create high risk conditions are uniformly identified;

(3) high risk conditions, once identified, are corrected in a timely manner; and

(4) high risk agencies that are unable to operate successful Head Start programs are identified and excluded from participation in the program in a timely manner.

In the comments to our draft report dated November 26, 1990 (Appendix), HDS agreed with our conclusions concerning performance evaluations of Head Start agencies. The HDS also agreed that the current system for performance evaluation needed to be strengthened. The HDS did not comment on our recommendation to develop detailed procedures needed to measure the degree of a Head Start agency's compliance with performance standards and to use those procedures as a basis for establishing uniform ratings for all agencies.

The comments to the draft report also indicated that HDS plans to replace agencies that cannot operate successful Head Start programs in a more timely fashion. However, HDS did not agree with our findings and recommendations concerning high risk determinations. The HDS indicated that its' procedures for high risk management are included in the HHS Grants Administration Manual and a number of policy guidance memoranda. Further, the comments indicated that HDS did not believe that changes were needed to require the development of definitions of high risk agencies or that specific time frames needed to be established for resolving high risk conditions. The HDS did not comment on our recommendation concerning the review of $14 million awarded three high risk head start agencies. We agree with HDS' proposed plans to replace problem Head Start agencies in a more timely fashion, but we believe that the other actions recommended in our draft report should also be implemented.

In their written response, HDS provided comments to this draft report and to our draft report on Automated Management Information Systems (A-04-90-00012). A summary of HDS' comments to a draft of this report and the related OIG response is included after the conclusions and recommendations section. The complete text of HDS' comments applicable to this report is included on pages 1 through 3 of the Appendix.

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INTRODUCTION

This report provides the results of our review of the methodology used by the Office of Human Development Services (HDS) to measure Head Start performance and control high risk Head Start agencies.

The objectives of our current review were to determine whether the HDS established procedures to: (1) assess the performance of Head Start agencies and (2) uniformly identify, monitor and exclude from participation, if necessary, high risk agencies.

This is one of three reports intended to provide information on ways HDS can improve the management efficiency of the Head Start program.

Background

Head Start was established under Title V of the Economic Opportunity Act of 1964, as amended. Head Start was reauthorized under the Human Services Reauthorization Act of 1986, which authorized Head Start funds for Fiscal Years (FYs) 1987 through 1990. The program was reauthorized for 1991. The President's FY 1991 budget totaled $1.7 billion for Head Start programs throughout the country. The proposed budget included a $500 million expansion of the Head Start program to serve an additional 180,000 children.

Head Start is a national program providing comprehensive developmental services primarily to low-income preschool children, age 3 to the age of compulsory school attendance, and their families. To help enrolled children achieve their full potential, Head Start programs provide comprehensive health, nutritional, educational, social and other services. In addition, Head Start programs are required to provide for the direct participation of parents of enrolled children in the development, conduct, and direction of local programs.

Head Start is administered by the Administration for Children, Youth and Families (ACYF) within HDS. During FYs 1987 through 1989, Head Start annually funded an average of 1,895 agencies that provided services to approximately 449,000 economically disadvantaged children during each of the 3 years.

Any local public or private nonprofit agency with the ability to carry out program objectives may be designated

by the Secretary as a Head Start grantee agency. A grantee agency may then delegate all or a part of its responsibility for operating a Head Start program to a public or private nonprofit organization, i.e., a delegate agency.

Scope

The objectives of our review were to determine whether the HDS: (1) had established procedures to uniformly monitor, assess, and improve the performance of Head Start agencies, and (2) exclude from participation in the Head Start program, high risk agencies that are not able to operate effective Head Start programs.

Our review was performed at HDS Headquarters and regional locations nationwide. The Head Start Performance Evaluation review was based on a statistical sample of 200 Head Start agencies selected from the Head Start Cost System data base. During the audit, we reviewed Head Start performance standards, program profiles, the Objective Tracking System (OTS), best practice and compliance reports. We also reviewed one regional office's internal procedures for "grantee targeting" (identification of grantees needing assistance). Where possible, we obtained fiscal and programmatic ratings from HDS Headquarters and regional office staff. Additionally, we held discussions with regional and Headquarters HDS staff.

In evaluating the area of High Risk Determination, we examined methods used by HDS to identify high risk agencies. We reviewed Title 45 of the Code of Federal Regulations, Part 74. We also reviewed the Department of Health and Human Services' (HHS) Grants Administration Manual (GAM), High Risk Grantees, Chapter 1-05, Monitoring Discretionary Grants, Chapter 1-13; and HDS Grants Administrative Staff Manual, Chapter 8.

Our review was made in accordance with generally accepted Governmental auditing standards. Field work was performed from October 1988 to December 1989. Our review of HDS performance ratings was based on a sample of Head Start agencies for FY 1989. Our review of HDS high risk determinations was based on those Head Start agencies that HDS identified as high risk for the period September 15, 1987 through November 8, 1989.

Findings and Recommendations

Our audit showed that HDS had not established or implemented procedures necessary to evaluate the performance of Head Start agencies or assure that appropriate action is initiated to upgrade or eliminate high risk agencies. Although HDS has identified functions considered essential for acceptable program performance, they had not developed a system to measure the degree to which a Head Start agency complies with the performance standards. In most instances, HDS top managers cannot readily measure Head Start agencies' compliance with performance standards. As a result, HDS' ability to make informed decisions concerning program funding levels, the allocation of discretionary funds or changes in program direction is impaired. Because of this impairment, HDS cannot adequately determine whether the $1.2 billion in Head Start funds are used to provide the maximum benefit to the children the program is intended to serve.

The HDS had not specifically identified the number and type of indicators that should be present before an agency is designated as high risk. The HDS had not established specific time limits for agencies to correct conditions that led to their high risk designations or developed criteria that identified high risk agencies that were not able to operate effective Head Start programs.

Significant improvement can be made to program oversight by:

- o establishing specific procedures to determine the extent of Head Start agencies' compliance with performance standards and establishing ratings for all participating agencies;
- o identifying the number and type of indicators that should be present before an agency is designated as high risk;
- o establishing specific time limits for agencies to correct conditions that led to their high risk designations; and
- o developing criteria to identify high risk agencies that are not able to operate effective Head Start programs.

Performance Evaluation

The HDS has not established a viable performance management system prescribing specific criteria needed to assure that Head Start agencies provide quality services to program participants in a fiscally responsible manner. The HDS has not developed a structured evaluation process to determine whether Head Start agencies comply with performance standards. Additionally, HDS cannot determine, with certainty, whether Head Start funds are used to provide the maximum benefit to the children the program is intended to serve. As a result, HDS' ability to make informed decisions concerning program funding levels, the allocation of discretionary funds and changes in program direction is impaired. We believe that HDS should establish and implement criteria to measure the quality of services provided by Head Start agencies.

The HDS does not currently require that Head Start agencies be evaluated based on the quality of services provided to participants. The HDS developed performance standards and indicators, two elements needed to establish a performance evaluation system, but only the standards have been implemented. The performance standards constitute Head Start policy with which all grantee and delegate agencies are required to conform. The Head Start standards are accompanied by guidance materials that elaborate upon the intent of each standard. The guidance is provided for the assistance of Head Start programs in interpreting and implementing the standards and is not mandatory. Neither the standards nor the guidance provides the necessary steps to measure the degree to which an agency either complies or does not comply with the performance standards. Additionally, procedures needed to rank the performance of Head Start agencies have not been developed.

Initial development on performance indicators began in 1978 but was never completed and did not include the criteria needed to perform an evaluation of an agency's performance. The initial indicators merely listed the data that should be considered, identified possible uses and provided a plan for implementation.

The HDS officials stated that uniform performance rating criteria was being developed. Currently, the degree to which agencies comply with the performance standards is determined by regionally developed procedures and individual practices. The criteria currently being developed consists of 31 Head Start indicators. The HDS officials indicated that this criteria would be the basis for fiscal and programmatic ratings of Head Start agencies.

We reviewed the proposed indicators to determine if sufficient discriminating criteria was provided to measure the quality of an agency's performance. Our review showed that the indicators were classified by Head Start performance area (i.e., Health, Parent Involvement/Social Services, Education, and Administration/Other) but did not include specifics concerning performance measurement. The indicators did not identify acceptable ranges or describe individual procedures to be followed. These indicators merely identified the type of data to be considered and the source of the required data.

The HDS officials indicated that performance measurement criteria had not been developed. We asked these officials to describe the methods HDS used to assess the performance of Head Start agencies and to rate our sampled agencies on a fiscal and programmatic basis. An HDS regional official indicated that, in addition to using prefunding contacts and reviews of grant applications, the data maintained on the Program Information Report (PIR) system was also used to assure that agencies met required performance standards. The PIR system contained performance data on the individual Head Start agencies and produced two standard reports, Compliance and Best Practices, that identified out-of-compliance conditions.

The PIR reports use expected goals and national averages to determine compliance with performance standards. The reports are used by regional officials to identify agencies needing assistance. The PIRs are also the basis for decisions concerning the need for increased monitoring activity. We were told that each agency identified in the PIR reports was notified either by memorandum or telephone contact and the areas of non-compliance were described. The HDS regional officials indicated that, depending on the seriousness of the noncompliance issues and the availability of funds, additional action may be as little as a phone call or as much as an on-site validation assessment. These reports assist the regions to identify problem agencies but do not measure the quality of services provided by other agencies that comply with performance standards. Further, there is no evidence to show that these reports are consolidated for the use of top HDS managers.

At the Headquarters level, HDS established, on a FY basis, objectives for the Head Start program. The HDS regional offices and Headquarters' Indian and Migrant

Divisions were required to report, on a quarterly basis, their progress in accomplishing these objectives through the HDS Objective Tracking System (OTS). The objectives encompass ACYF's program priorities for the respective FY. In FY 1989, the OTS included three goals and approximately 28 common objectives.

One FY 1989 objective was to ensure that Head Start agencies complied with all Head Start regulations and that agencies provided quality services to Head Start enrollees and their families. In order to accomplish this objective, regional HDS offices and Headquarters divisions were to perform on-site reviews of a predetermined number of agencies and report the results of these visits through the OTS. While reports generated from the OTS were designed to show whether or not agencies complied with the performance standards, our review showed that most regional office and Headquarters division submissions did not address the issue of compliance. We found that only 4 of the 12 submissions indicated the number of agencies that either complied with or were not in compliance with performance standards. The omission of this data substantially reduces the usefulness of the OTS for measuring an agency's compliance with regulations and the quality of services provided.

The HDS officials in Headquarters and four regional offices would not rate their respective agencies because uniform performance rating criteria did not exist. Five of the remaining six regions provided agency ratings but indicated that their ratings were subjective and that HDS had not established uniform performance measurement criteria. The sixth region's ratings were based on an internal regional policy that annually rated its Head Start agencies. This system, however, was not used to measure agency performance, but rather was used to establish uniform procedures for targeting Head Start agencies for monitoring as a result of the "debriefing process."

We obtained HDS' ratings for 115 of the 200 Head Start agencies selected for review. These ratings showed that the operations of 13 agencies were considered to be poor, 54 were considered average, and 48 were categorized as good Head Start operating agencies. These ratings, although based on subjective determinations, show that significant variations exist in the quality of service delivery and demonstrate the need for performance measurement criteria. If Head Start agencies were rated uniformly or consistently, HDS could more effectively make decisions concerning grantee participation and expected outcome and adjustments.

The HDS Headquarters officials indicated that outside evaluations of the Head Start program were also used to assure that quality services were provided to program participants. We asked for a listing of evaluations performed during the 4 year period 1987 through 1990. To date we have not received this listing or any other evidence of outside evaluation efforts. Therefore, we cannot determine what effect outside evaluation efforts had on assuring that quality services were provided by Head Start agencies.

The FY 1991 budget requests the largest single funding increase in the history of the Head Start program - $500 million or a 36 percent increase. This increase in the Head Start budget is a key component in achieving the readiness of all children to start school, one of the National Education Goals outlined at the President's Education Summit. With the expansion of the program, the ability to demonstrate or otherwise document that quality Head Start services are being provided should be a major objective of HDS; we believe the establishment of a system to rate the performance of operating agencies is essential for the obtainment of that objective.

The Associate Commissioner of the Head Start Bureau realizes that a performance rating system is needed. During a presentation made at our pre-audit conference he stated that a computerized grant profile would be developed and programmatic and fiscal funding judgments would be made; once developed, Head Start agencies could then be graded. Additionally, he stated that this was the management style Head Start was moving toward in order to make decisions and necessary program improvements.

We believe that a performance rating system would assist HDS in its mission to provide quality services to preschool children. We also believe that it would help assure that funds awarded Head Start agencies are utilized to provide maximum services to Head Start enrolles and their families.

High Risk Determinations

Our review at HDS regional and Headquarters offices showed that HDS had not established detailed procedures needed to effectively manage high risk agencies. The HDS had not specifically identified the number and type of indicators that should be present before an agency is designated as high risk. The HDS had not established specific time limits for agencies to correct conditions

that led to their high risk designations or developed criteria that identified high risk agencies that were not able to operate effective Head Start programs. Regional HDS officials stated that the HHS Grants Administration Manual (GAM) was used to identify high risk agencies but that HDS had not established procedures that specifically described how high risk determinations were to be made or the corrective actions required. A Headquarters HDS official indicated that each regional office was responsible for identifying high risk Head Start agencies and that the Regional Director of Fiscal and Program Operations had the ability and expertise to determine whether an agency should be identified as high risk. The current practice of allowing individual regions to make these high risk determinations does not assure uniformity in identifying and controlling high risk conditions.

The GAM provides guidance on how granting agencies can identify high risk agencies and the actions that should be taken once the determination has been made. The GAM provides guidance on: (1) indicators of high risk; (2) obtaining information for high risk determinations; (3) managing risk; and (4) technical assistance to high risk agencies. The GAM, however, does not include procedures to be used in applying these guidelines. The GAM guidelines do not define the number of indicators that should be considered sufficient to classify an agency as high risk, nor do these guidelines indicate specific time frames allowed for an agency to correct high risk conditions. Further, these guidelines do not state or indicate when an agency's high risk activity should be considered serious enough to render the agency unable to operate a Head Start program. The GAM is incorporated into Chapter 8 of the HDS Administrative Staff Manual which also provides guidance on high risk determination. The Administrative Staff Manual defines high risk agencies and states HDS' high risk policy, but does not identify detailed procedures to be followed for identifying and managing high risk agencies.

In an effort to supplement the GAM and Chapter 8 of its staff manual, HDS forwarded to its Regional Administrators a memorandum, dated February 7, 1990, that referenced 45 CFR 92. The purpose of 45 CFR 92 is to establish uniform administrative requirements for grants and cooperative agreements to state, local and Indian tribal governments. The issuance of this memorandum demonstrates HDS' recognition that the GAM, as well as their staff manual, needs additional criteria for identifying and monitoring high risk non-profit grantees. We believe that HDS should move forward and formalize this extended guidance as an initial step to augment existing criteria.

In a memorandum dated February 3, 1989, a Headquarters HDS official required regional offices to provide quarterly updates on agencies that remained in a high risk status for two or more years. The regional offices were directed to provide information on the agencies' progress and time frames for corrective action. Additionally, in November 1989, HDS performed a limited analysis of agencies that remained in high risk status for 2 or more years. This analysis showed the current status of corrective actions and provided recommendations for future activity. Although these actions will assist in managing agencies that have remained in high risk status for two or more years, they do not provide the guidance needed to effectively manage high risk Head Start agencies.

Agencies were designated as high risk for several different reasons. These reasons, however, were not sufficiently detailed to determine if high risk designations were uniformly made across the country. Our review did show that some HDS offices were inconsistent in their approach and use of high risk determinations. Regional HDS offices designated agencies as high risk at the point aberrant management practices were identified and used this designation to identify agencies that needed assistance. On the other hand, Headquarters HDS officials designated agencies as high risk as a final step before the agency was terminated from the Head Start program.

We found that agencies remained in a high risk status for periods that ranged from 1 month to 4 and a half years. We identified 19 agencies that were considered high risk for 2 or more years during the period September 15, 1987 through November 8, 1989. Approximately $56 million in Head Start funds were awarded to these 19 agencies whose management practices raised serious questions about their ability to assure proper programmatic use and financial stewardship of Federal funds. In some instances these agencies have proven to be so ineffective in their operation that HDS ultimately excluded them from participation in the Head Start program.

We found that approximately $19 million was awarded to three agencies that remained in high risk status for more than 2 years and were ultimately excluded from participation in the Head Start program. We believe that approximately $14 million of these funds, awarded during the second and subsequent years the agencies were designated as high risk, were not utilized in an

efficient manner. Our conclusion that these funds were under-utilized was based on HDS' requirement that instances of non-compliance with performance standards be corrected within 1 year. We believe that this requirement should also be applicable to high risk conditions. The Exhibit to this report shows our calculation of the $14 million.

Conclusions and Recommendations

Although performance standards have been established, performance measurement criteria has not been developed to assist HDS in determining the extent of an agency's compliance with these standards. We believe that a performance rating system would augment HDS' present abilities to provide quality services to preschool children.

The HDS procedures for identifying and managing high risk agencies do not provide assurance that the: (1) methods used to identify high risk agencies are uniform throughout the Head Start program; (2) conditions that cause an agency to be considered as high risk are corrected in a timely manner; and (3) agencies unable to operate successful Head Start programs are identified and excluded from participation in the program.

We recommend that HDS establish and implement procedures needed to assure that:

(1) the extent of Head Start agencies' compliance with the performance standards is determined and used as a basis for establishing uniform ratings for all agencies;

(2) agencies whose management practices create high risk conditions are uniformly identified;

(3) high risk conditions, once identified, are corrected in a timely manner; and

(4) high risk agencies that are unable to operate successful Head Start programs are identified and excluded from participation in the program in a timely manner.

HDS Comments and OIG Response

Performance Evaluation

The HDS agreed that an effective system for evaluating the performance of Head Start agencies was important and

also agreed that the current system needed strengthening. HDS pointed out that the re-authorization act now requires that on-site reviews of each grantee be performed at least once every three years. Finally, HDS indicated that the on-site review process was the most important single element in evaluating program performance and listed six proposed actions to strengthen this process.

OIG Response

The HDS' comments did not respond to our recommendation concerning developing procedures to determine the degree of a Head Start agency's compliance with performance standards and establishing uniform ratings for Head Start agencies. Unless these type of procedures are established, HDS' ability to make informed decisions concerning program funding levels, the allocation of discretionary funds and changes in program direction is impaired. Additionally, without measurement procedures, HDS cannot demonstrate or otherwise document that quality Head Start services are being provided or assure that funds awarded Head Start agencies are used to provide the maximum benefit to the children the program is intended to serve. Therefore, we believe that HDS must establish and implement detailed procedures to measure the quality of services provided participants and rate the performance of Head Start agencies in addition to implementing the corrective actions outlined in the written comments.

High Risk Determination

In their written response, HDS stated that plans had been made to replace agencies that cannot operate successful Head Start programs in a more timely fashion. The comments indicated that HDS would publish a Notice of Proposed Rule Making (NPRM) which would simplify the appeals procedures and involve the Departmental Appeals Board in hearing appeals. The response also indicated that HDS did not believe that suggested changes in its' current high risk procedures should be made. The HDS comments and our responses are summarized below:

1. The written response stated that the draft incorrectly reported that HDS did not have detailed procedures for high risk management. The response indicated that HDS had procedures in its Grants Administration Manual, expanded through a number of policy guidance memoranda. Further, HDS' comments indicated that these procedures were in full compliance with HHS policy and that we

should revise our draft to clearly state that our recommendations suggest that HDS go beyond the previously identified procedures.

OIG Response

We agree with HDS' proposed plans to help replace problem agencies in a more timely fashion, but also believe that other measures are necessary to strengthen the management of high-risk Head Start agencies. Our review showed that HDS had not developed detailed procedures to adequately manage high risk agencies. The steps included in the Grants Administration Manual (Manual) and requirements of HDS' high risk memoranda do not constitute a set of detailed procedures for managing high risk conditions. The manual clearly states:

> "This chapter provides guidance on how granting agencies can identify high risk grantees and the actions to be taken once the determination has been reached."

The manual merely provides examples of some conditions that could be used to identify high risk agencies, it does not provide the detailed procedures to be used in identifying and managing these agencies.

The available memoranda related to high risk agencies required that regional offices provide Headquarters HDS with information on the status of high risk agencies that remained in a high risk designation for two or more years. These memoranda did not provide steps needed to identify high risk agencies or to assure that the aberrant conditions were corrected in a timely manner.

We do not believe that HDS' current approach to managing high risk agencies is sufficient to assure that high risk agencies are properly controlled. We believe that HDS should establish procedures in addition to the guidance included in the manual because the data in the manual does not contain the detail necessary to assure the proper management of high risk agencies. We also believe that the need for additional procedures is clearly stated in our draft report.

2. The HDS stated that instructions and procedures for management of high risk grantees deliberately do not require that high risk designations be made on the basis of specific numbers or types of indicators. The comments further indicate that HDS does not believe that the type of quantitative precision envisioned in the draft report is

applicable to a complex issue such as high risk status. Finally, HDS stated that it is preferable to continue to rely on the professional judgement of HDS Headquarters and regional managers to make high risk determinations on a case-by-case basis, following the guidelines and procedures that are contained in existing HDS and Departmental instructions.

OIG Response

We believe that HDS' policy of not requiring that high risk designations be based on specific numbers or types of indicators caused the conditions described in our report i.e., untimely resolutions of high risk conditions and inconsistent treatment of agencies designated as high risk between regions and Headquarters. We do not agree that it is preferable to continue to rely on individual judgments of the regional and Headquarters managers. Our review showed that this process resulted in some agencies remaining in high risk status for long periods of time and has not been effective in correcting aberrant conditions or assuring that high risk agencies receive consistent treatment. Finally, we do not believe that either the guidance found in the HHS Grants Administration Manual or the HDS Memoranda provide sufficient detail to adequately manage HDS high risk agencies. Therefore, we believe that the recommendations included in our draft report should be implemented.

3. The HDS stated that specific time-frames (e.g., one year) should not be instituted after which high risk grantees would be excluded from participation in the program. The HDS indicated that time frames were important and had been instituted on a case-by-case basis. The HDS did not want an inflexible or arbitrary time limit imposed in such a sensitive area.

OIG Response

Our review showed that time frames were needed to assure that aberrant conditions that existed in high risk agencies were corrected in a timely manner. We found that without such limits, some agencies continued to operate unsuccessful programs for extended periods of time before they were ultimately excluded from the program. We believe that time frames should be instituted and that they should be flexible depending on circumstances. We also believe that measurable time frames should be established.

EXHIBIT

DHHS-OIG-OAS
OPPORTUNITIES FOR IMPROVED MANAGEMENT EFFICIENCY OF
THE HEAD START PROGRAM
CIN:A-04-00009
UNDERUTILIZATION OF HEAD START FUNDS BY HIGH RISK AGENCIES

EXHIBIT

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
						(COL.4 / COL.5)	(COL.6 * 12 MONTHS)				(COL.6 * COL.10)
GRANTEE NAME	TIME IN HIGH RISK	BUDGET PERIOD	REASON FOR HIGH RISK	AMT AWARDED WHILE IN HIGH RISK	MONTHS ON HIGH RISK	AVG MONTHLY AMT REC'D AS HIGH RISK	AVG AMT REC'D IN 1 ST YEAR	FISCAL YEAR	FISCAL YEAR MONTHS IN HIGH RISK	NO. OF MONTHS	UNDER UTILIZED AMT
ECONOMIC OPPORTUNITY OF ATLANTA	08/07/84 THROUGH 06/30/89	JAN THROUGH DEC	FISCAL MGT PROBLEMS	$17,030,271 #	58	$293,625	$3,523,504	1984	08/08/84 TO 09/30/84	2	$ 0 *
								1985	10/01/84 TO 07/30/85	10	0 *
								1985	08/01/85 TO 09/30/85	2	587,252
								1986	10/01/85 TO 09/30/86	12	3,523,504
								1987	10/01/86 TO 09/30/87	12	3,523,504
								1988	10/01/87 TO 09/30/88	12	3,523,504
								1989	10/01/88 TO 06/30/89	8	2,349,003
										58	13,506,767
SOMERSET COMMUNITY ACTION	09/18/87 THROUGH 09/15/89	SEPT THROUGH AUG	HIGH VISIBILITY	754,720	23	32,814	393,767	1987	10/01/87 TO 09/30/88	12	0 *
								1988	10/01/88 TO 09/15/89	11	360,953
										23	360,953
KENT CO. CHILD DEVELOPMENT	12/06/85 THROUGH 06/09/89	JAN THROUGH DEC	NON-FEDERAL SHARE PROBLEM	717,808	41	17,508	210,090	1986	12/06/85 TO 09/30/86	9	0 *
								1987	10/01/86 TO 12/31/87	3	0 *
								1987	01/01/87 TO 09/30/87	9	157,568
								1988	10/01/87 TO 09/30/88	12	210,090
								1989	10/01/88 TO 06/01/89	8	140,060
										41	507,718
TOTAL				$18,502,799	122	$343,947	$4,127,361				$14,375,438

NOTE:

THE UNDERUTILIZED AMOUNT (COL.11) IS CALCULATED BY THE NUMBER OF MONTHS IN EXCESS OF ONE YEAR (TIMES) THE AVERAGE MONTHLY AMOUNT (COL. 6) RECEIVED WHILE IN HIGH RISK STATUS THROUGH THE DATE IN WHICH THEY WERE EXCLUDED FROM PARTICIPATION IN THE HEAD START PROGRAM.

WE FEEL THAT ONE YEAR (MAXIMUM TIME ALLOWED TO CORRECT PERFORMANCE STANDARDS) SHOULD ALSO BE APPLICABLE TO CORRECT ANY DEFICIENCIES THAT WERE USED TO IDENTIFY THESE AGENCIES AS HIGH RISK.

LEGEND:

* THIS PERIOD DOES NOT HAVE AN UNDERUTILIZED AMOUNT BECAUSE THE GRACE PERIOD OF ONE YEAR TO CORRECT DEFICIENCIES APPLIES.

THIS AMOUNT INCLUDES HEAD START FUNDS AWARDED FOR OPERATION AND CLOSE OUT OF THE GRANT.

Appendix

HDS Response

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of
Human Development Ser

Assistant Secretary
Washington D C 20201-00

MAY 26 1992

TO: Richard P. Kusserow
Inspector General
Department of Health and Human Services

FROM: Assistant Secretary
for Human Development Services

SUBJECT: Response to Draft Reports on Opportunities for Improved Management Efficiency of the Head Start Program: Performance Evaluation and High Risk Determination (A-04-00009) and Automated Management Information Systems (A-04-90-00012)

Thank you for the opportunity to comment on your draft reports concerning procedures for the evaluation of Head Start programs and the management of "high risk" programs, and Head Start's automated information systems. Because the two reports are closely related, we are responding to both in this memorandum.

Performance Evaluation (Report A-04-00009)

We agree with the draft report's conclusion about the importance of having an effective system for evaluating the performance of local Head Start programs. We also agree that the current system for performance evaluation must be strengthened. As Head Start expands to become a multi-billion dollar program, there must be systems that can reliably assess whether grantees are complying with the program's Performance Standards. This is especially important because the Head Start legislation requires that current grantees receive priority for continued funding, if they are performing satisfactorily.

As requested by the Office of Human Development Services (HDS), a new provision in the Head Start reauthorization act requires that a full, on-site, review be conducted of each grantee at least once every three years to assess whether it meets the program Performance Standards. The statute will require that the results of the review be used, in conjunction with other information, to determine whether to continue providing non-competitive funding to the grantee or to discontinue funding and seek a new agency to serve the community.

Although information collected through automated data systems plays an important role in assessing grantee performance, the most important single element in our system for evaluating program performance is periodic on-site monitoring. We intend to strengthen our monitoring system during the coming year in the following ways:

- The number of monitoring reviews will be increased to an average of 440 per year so that one-third of all programs can be assessed annually. In recent years, resource constraints have allowed us only to monitor as few as 25 percent of the programs each year.

- Increased resources will be directed to monitoring. In FY 1991, Head Start monitoring will be a priority use of Federal travel funds. A $2 million contract, initiated in FY 1990, that supports the use of non-Federal reviewers on monitoring teams will be continued. Funding for the contract will be increased, if necessary.

- The scope of monitoring visits will be expanded to ensure that the reviews are comprehensive. In addition to reviewing compliance with Performance Standards, reviews will include fiscal and other administrative and regulatory requirements.

- Procedures will be established to ensure that the reviews are consistent across Regional Offices and among grantees. Federal staff will be trained to ensure that there are common understandings and practices among HDS Regional Offices concerning the way in which monitoring instruments and other data sources are to be used. Standards will be set concerning the numbers of reviewers and the length of time required to review programs of various sizes.

- Monitoring instruments will continue to be revised to provide more reliable and consistent findings. The Head Start On-site Program Review Instrument (OSPRI) will continue to be used during FY 1991. A copy of the OSPRI is attached. This instrument contains indicators to help measure performance in 51 key areas. Further revisions will be made to the instrument by FY 1992 to make it easier to use and to ensure that the appropriate indicators are included.

- An automated system will be developed to collect and summarize the results of monitoring reviews. This will enable us to identify specific sub-component areas in which programs across the country are performing well or poorly.

High Risk Determination (Report A-04-00009)

This section of the report might lead an uninitiated reader to the conclusion that HDS has no detailed procedures for high risk management. That is not correct; HDS has procedures in its Grants Administration Manual, expanded through a number of policy guidance memoranda, which fully explain high risk management -- in full conformance with Departmental policies and procedures. If the OIG is recommending that we go beyond those procedures in managing Head Start programs, this should be stated directly.

There are two areas discussed in the draft report where we do not believe changes in HDS procedures should be made. First, HDS instructions and procedures for management of high risk grantees deliberately do not require the categorization of grantees as high risk on the basis of specific numbers or types of indicators. We do not believe the type of quantative precision envisioned in the report is applicable to a complex issue such as high risk status, since so much depends on individual circumstances. Rather, we believe it is preferable to continue to rely on the professional judgement of HDS Headquarters and Regional managers to make high risk determinations on a case-by-case basis, following the guidelines and procedures that are contained in existing HDS and Departmental instructions.

Second, we do not agree with the recommendation that specific timeframes (e.g., one year) should be instituted after which high risk grantees should be "...excluded from participation in the program." We believe that timeframes are important and have instituted timeframe requirements on a case-by-case basis for each HDS high risk designation in accordance with the new grant regulations in 45 CFR Part 92.12. However, we would not want an inflexible and arbitrary time limit imposed in such a sensitive area, due to the need to deal with individual grantee circumstances.

We do have plans to help replace agencies in a more timely fashion after it is determined that they cannot operate a Head Start program successfully. One change that will assist in this process will be the publication of an NPRM later this year which will simplify appeals procedures and involve the Departmental Appeals Board in hearing appeals.

NOTE: HDS comments have been deleted because they pertain to material that is not included in this report.

Page 4 - Richard P. Kusserow

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Page 5 - Richard P. Kusserow

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Page 6 - Richard P. Kusserow

NOTE: HDS comments have been deleted because they pertain to material that is not included in this report.

Page 7 - Richard P. Kusserow

NOTE: HDS comments have been deleted because they pertain to material that is not included in this report.

We look forward to the opportunity to discuss our plans with you or provide additional information.

Mary Sheila Gall

Mary Sheila Gall

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